

Realty Trust Review

January 12, 1979

©1979 Audit Investment Research, Inc.

VOL. X, No. 1
Our Tenth Year

INVESTMENT OUTLOOK AND SELECTION ISSUE

The Year Ahead: Ownership concentration opens opportunities in low-priced REITS..1	
Table: Major Outsider Block Holdings in Realty Trusts Dec. 1978.....3	
Opportunity Type One: The liquidation is becoming a viable path.....4	
Suggestions: <u>GREIT</u> , <u>REIT of America</u> , <u>Pennsylvania</u> , <u>US Equity & Mtg.</u> , <u>General RE</u>	
Opportunity Type Two: Merger candidates or trusts seeking new acquisitions.....4	
Ranking upgrade for <u>Moraga</u> ; Comments on <u>Diversified</u> , <u>Cousins M&E</u> , <u>TRECO</u>	
Opportunity Type Three: Trusts where new management may take control.....5	
Comments on: <u>Eastover</u> , <u>Lincoln Mtg.</u> , <u>Fidelco</u> , <u>Baird & Warner M&R</u>	
Tale of the Tape: Using 1978 market action to pick stocks for 1979.....7	
Table: Winners and Losers Among 135 Realty Trusts in 1978.....6	
Table: Share Turnover Ratios during 1978.....8	

THE YEAR AHEAD: OWNERSHIP CONCENTRATION OPENS OPPORTUNITIES IN LOW-PRICED REITS

Like the commercial says, one thing stands clear in any projection of what you can expect for 1979:

Ownership of realty trust shares will continue to be concentrated in fewer and fewer hands. This trend has the makings of real investment opportunities for 1979, regardless of the course of interest rates and the economy, especially if you are willing to look at lower-priced trust stocks.

It all results from the fact that most realty trust shares sell at substantial discounts from either book and/or putative break-up value of their assets. This brings an investment vacuum which inexorably must be filled -- sooner or later.

The march of day-to-day events tends to obscure the relentless buying of REIT shares by sophisticated investors, most with Wall Street instead of real estate orientation, that marked 1978. So it is well to pause at this beginning of a new

year and take a retrospective look at the year just passed to pick out trends that can form the basis for sound investment strategy in 1979. Our look at the old year finds these standout trends:

1. Ownership concentration accelerated. We started seeing the first flutter of 13-Ds (a form an investor must file with the SEC when it acquires over 5% of stock of a company) in 1977. Filings picked up early in 1978 (see RTR, Aug. 11, 1978 for a summary of first-half filings) and then were overwhelming during the second half. Now scarcely a day passes without one or more 13-D filings. REALTY TRUST REVIEW incorporates the major filings into its bi-monthly RELATIVE APPEAL RANKINGS and we are summarizing on Page 3 of this issue the major known holdings.

As a result more and larger blocks of realty trust stocks are held by more groups than ever before. The REITs started as a classic use of O.P.M.--Other People's Money --by institutions and companies who raised large sums of public money but seldom had significant ownership interests. Most

KENNETH D. CAMPBELL, EDITOR AND PUBLISHER

AUDIT INVESTMENT RESEARCH, INC., 230 PARK AVENUE, NEW YORK 10017

REALTY TRUST REVIEW, REAL ESTATE DISCLOSURE DIGEST, REIT EVALUATIONS, and special industry investment reports are published by Audit Investment Research, Inc., an independent advisor registered with the Securities and Exchange Commission under the Investment Advisers Act of 1940. Under no circumstances is anything contained herein to be construed as an offer to purchase or a solicitation to sell any security mentioned. Information has been obtained from sources believed to be reliable and reasonable care has been exercised in compilation, but accuracy or completeness cannot be guaranteed. Expressions of opinion are solely the responsibility of the publisher and may be changed at any time without notice. Periodical advisory services are mailed to reach subscribers no later than the Monday following publication date. Audit's officers, employees and printers are not permitted to trade upon any recommendation until the Tuesday following. Subscriptions may not be assigned without consent and unused portion refunded on request. All stock charts courtesy R. W. Mansfield Co. Copyright © by Audit Investment Research, Inc., 230 Park Ave., New York, N.Y. 10017. May not be reproduced or photographed in any form without written permission. Additional copies available at group rates.

PUBLISHED TWICE MONTHLY ON THE SECOND AND FOURTH FRIDAYS SUBSCRIPTIONS \$148 ANNUALLY SINGLE COPY \$10 (RELATIVE APPEAL \$20) BACK ISSUES \$1.50 TO SUBSCRIBERS ONLY ■ GROUP RATES ON REQUEST

Individual portfolio consultation: \$175 hr. to subscribers, \$250 nonsubscribers

stock was sold to smaller individual investors--average holding was about 300 sh. --and generally to investors approaching retirement age.

Many REIT managers still continue to believe that this ownership pattern persists to this day -- when in fact our surveys of trading and ownership over the past two years indicate that substantial amounts of REIT shares are being bought up by stronger, better capitalized and more sophisticated investors. Our year-end survey (p. 3) turns up significant outsider (i.e., not initially identified with management or sponsors) ownerships in about 32 trusts. These are the known or publicly identified groups, but the situation is so fluid that it's likely that several other block positions have already been assembled and will be disclosed soon.

These new and stronger owners of realty trust stocks generally have three objectives, whether stated explicitly or implicitly. They form the basis for three distinct types of investment opportunities, reviewed beginning on p. 4.

2. Mortgage lending trusts are an endangered species. A year ago we abandoned the obsolete short-term mortgage, long-term mortgage categories into which most trusts had been grouped (and which are most familiar to investors). Today only about ten real estate trusts are active mortgage lenders and no more than half of these have large enough organizations to be effective providers of short-term capital on a national basis.

Active national lenders are almost all making only construction loans and the days of land acquisition and development loans are almost entirely gone. The active national mortgage lenders are: Equitable Life Mtg. & Realty, MONY Mtg. Investors, Wells Fargo Mtg. & Equity, Lomas & Nettleton Mortgage, Mass-Mutual Mtg. & Rlty. and Northwestern Mutual Life Mtg. & Realty.

Several trusts have prospered as smaller regional or local lenders, including First Continental REIT, M&T Mtg. Inv., Baird & Warner Mtg. & Rlty. and

Fraser Mtg. Inv. Western Mtg. Inv. has also made some new loans.

But recent rises in interest rates have dramatized how fragile are the spreads in short-term mortgage lending. This thin spread and intense competition from commercial banks impelled Nationwide Real Estate Inv. in March 1978 to go out of business and seek merger into another company. Its proposed merger into Buckeye Federal S&L is now pending before regulators.

And the market has reacted negatively to prospects for the mortgage lenders in a rising interest rate environment. Equi-Life Mtg. and Lomas & Nettleton Mtg. were second and third from the bottom in the 1978 performance rankings, falling 35.9% and 22.6% respectively (Table, p. 6). Only Realty ReFund did worse, falling 38.1% as rising rates pinched return from its fixed-rate intermediate-term wrap-around mortgages.

3. The focus has swung to properties. Properties owned now account for 58% of the \$13.7 billion total REIT investments at latest date, as reported by Nat. Assn. of REITs. To be sure nearly half, or \$3.9 of \$7.9 billion, of total properties have been acquired in foreclosure, but trusts have had to become property managers instead of mortgage loan administrators.

A half-decade earlier, in the fourth quarter of 1973 when the mortgage loan bubble was just about to pop, only \$3.3 billion or 18% of industry assets was invested in properties. Thus the industry asset mix has turned upside down in a short five years. Couple this focus on properties with the shrinkage of mortgage lending and you can see the makings of the classic arbitrage on property values outlined above. During 1978 we honed in on these properties in our 296-page investment study, New Opportunities in Realty Trusts which brought information on over 2,000 properties into one accessible place. The insights gained from this comprehensive work were then incorporated into our RELATIVE APPEAL RANKINGS and reviews of specific trusts.

4. You can expect more industry consolidation than ever before during 1979.

MAJOR OUTSIDER BLOCK HOLDINGS IN REALTY TRUSTS DEC. 1978

Trust	Sh.Out (Th.)	Buyer(s)	Date*	Shares owned	% of Total	Market Value**
Atlanta Nat.RE.1,273		Reed Rubin, Lee Balter et al	7/10/78	231 Th.	#18.1%	\$924 Th.
Baird & Warner.1,043		Icahn & Co. (Carl Icahn)	12/18/78	235	22.5	1,759
BankAmer.Rlty..3,547		DeRance, Inc.	10/9/78	178	5.0	1,842
BRT Realty.....1,400		Brent D. Baird, et al	10/27/78	70	5.0	88
Builders Inv....2,929		Morse F. Van Horn	6/30/78	191	6.5	455
C.I. Realty....2,609		Tamco Ent./Robert Wilson	4/78&8/77	330&154	12.6&6	5,445
Cit. Growth.... 811		Brent D. Baird et al	8/28/78	187	#23.1	515
Colwell Mtg.Com.2,030		Edwin Morgens, Bruce Waterfall	11/24/78	56	2.8	84
Colwell-Pfd.....2,149		" " " "	"	141	6.6	317
Compass Inv....2,923		Joe Akerman, John Wertin	12/11/78	1,259	43.1	1,574
Diversified MI.7,326		MEI Corp.	8/8/78	541	7.4	1,964
Fidelco Growth.1,580		Sidney Baer - Note a	12/22/78	241	15.3	996
" " "		Asset Management, Inc. et al	11/10/78	67	4.2	277
First Memphis..1,156		Edwin Morgens, Bruce Waterfall	10/30/78	75	6.5	205
First Mtg. Inv.8,495		Richard W. Larson	9/2/77	710	8.4	444
First Wisc.Mtg.1,988		Lowell F. McNeill	8/19/78	117	5.9	341
Fraser Mtg.....1,038		Jeffrey Schultz	11/3/78	103	9.9	1,083
GREIT Realty... 998		Unicorp. Fin.(Can.),Geo. Mann	12/13/78	92	9.2	656
Hanover Sq.Rl.. 946		Brent D. Baird et al	11/77	85	# 9.0	594
ICM Realty.....3,011		Eastover Corp.	11/20/78	247	# 8.2	2,103
Kentucky Prop..1,100		Brent D. Baird et al	4/3/78	171	#15.5	364
Lincoln Mtg....1,155		M.F.VanHorn, Ted Nelson et al	8/21/78	234	#20.2	439
Maryland Rlty.. 760		Federated Reinsurance, et al	11/29/78	159	20.9	498
Midland Mtg....2,382		E. Peter Hoffman Jr.	12 11/78	406	17.1	711
Miller (Hen.S.). 560		James Jackson et al	5/6/78	64	11.4	798
Nat. Mtg. Fund.3,707		Brent D. Baird et al	12/19/77	255	# 6.7	191
NW Finc'l. Inv.1,510		Brent D. Baird et al	12/19/77	153	10.2	1,244
Penn. REIT.....1,516		DeRance, Inc.	7/10/78	96	6.3	1,558
Texas First MI.1,055		Eastover Corp.	12/1/78	159	#15.1	477
TIERCO.....1,170		James P. Upham	12/7/78	114	9.7	300
United Realty..3,610		Federated Reinsurance et al	12/8/77	203	5.8	1,650
Western Mtg....1,003		Shamrock Assoc.	11/13/78	64	6.4	217
Wisconsin RE...1,154		Wisc., Milwaukee Assoc.	10/20/77	127	8.4	206
Westport Co....2,388		Leonard Dalsemer et al	10/4/77	742	#31.1	1,810
TOTAL.....					\$32,129 Th.	

Representatives of this group have taken board seats or full control.

* Date of latest 13-D report, adjusted for known sales. ** Th. \$, at Dec. 31, 1978

a-Announced intention to seek control of Fidelco Growth.

One reason is that the table above shows a 154% expansion in outsider holdings in 1978 over a similar total at the end of 1977. Not all the outsiders are "outsiders" anymore; the Lincoln Mtg. group took full control in Oct. 1978 and group members have taken board seats at eight

other trusts. These new and stronger owners generally have three objectives in mind and they are discussed starting on the next page.

The other reason is that trust managers are talking consolidation with more vigor than ever before. All this makes deals.

OPPORTUNITY TYPE ONE: THE LIQUIDATION IS BECOMING A VIABLE PATH

Many investors have assembled large blocks of lower priced trust stocks at large discounts from nominal or real book value and can be expected to press for liquidation so that market value of assets can ultimately be repaid to investors.

Until a year ago most trust managements scoffed at liquidation as impractical. But during 1978 liquidation was completed or begun on several large investment builders -- notably Tishman Realty & Construction, Monumental Properties, and Amterre Development.

During 1978 one smaller realty trust, First Fidelity Investment Trust, announced liquidation plans Feb. 28, 1978 and had completed sale of all properties by fall; it paid \$6.50/sh. initial liquidating dividend Dec. 8 and will pay the rest, now estimated at about \$6.60/sh. for a \$13.10/sh. total, through early 1980, assuming settlement of claims does not eat into the pot.

Two Cincinnati real estate developers, David Wolf and Robert Blatt, began assembling a block of FFIT shares early in 1977 when it sold below \$2. Gradually they built a position of about 61,100 shares at prices up to about \$4. They will about triple their money for a two-year holding period.

Also during 1978 one other smaller mortgage trust, Citination Development, advised by a Beverly Hills, Cal. bank, said it would begin liquidating properties, most acquired in foreclosure, and pay part of proceeds to shareholders as return of capital.

All this tells you the liquidation idea is out of the closet and near the top of the agenda for both REIT managers and these new large block investors.

We think the greatest liquidation potential is found among the older property trusts where today's rents are being collected on fully depreciated properties. Trusts in this category include GREIT

Realty, REIT of America, possibly Pennsylvania REIT, U.S. Equity & Mtg., General Real Estate Shares, and possibly some other smaller trusts.

OPPORTUNITY TYPE TWO: MERGER CANDIDATES OR TRUSTS SEEKING NEW ACQUISITIONS

We pointed out at mid-year (June 9) that realty trusts have over \$1.5 billion unused net operating losses (NOL) which can be used to offset future profits, if and when earned. About 15-20% of this will expire in 1979-81 with the remainder becoming useless in 1983-85. In addition many trusts have losses they've already reported to shareholders but haven't yet been taken for Federal income taxes.

Outsiders are willing to pay something for these losses, but losses expiring this year and next are worth almost nothing. Losses expiring in the mid-1980s are worth only 46% of value at very best (because that's the Federal tax rate) and realistically are probably worth something like 25%. So while we began in Oct. 1978 to report taxloss benefits available to trusts on a share basis in our bi-monthly RELATIVE APPEAL RANKINGS, you should not buy shares solely on the hope that someone will come along and pay full value--or that the trust itself can use these losses through its own or acquired profit making operations.

Notwithstanding all this, some outside investors presently acquiring shares of trusts can reasonably be expected to try to find ways to use this taxloss carryforward for their own benefit. But since acquirers almost never want to alert IRS to the fact they are seeking to buy taxlosses, you will rarely find any acquirer saying openly that this is his purpose.

For example, MEI Corp., a diversified Minneapolis soft-drink distributor, bought 540,900 sh. or 7.4% of Diversified Mortgage Investors, Inc. in August 1978. MEI says it does not currently have any plan to acquire control of DMI but "should not be considered a passive investor and may in the future consider seeking control of DMI. MEI may in the future, but at the present time has no plan, to make a ten-

der or exchange offer for shares."

Diversified is one of the few trusts that have already converted into corporate form so that it may have more latitude in operating its business and clear the way for potential acquisitions on its own. Others moving in this same direction are:

--Moraga Corp., nee Alamand Corp. nee Beneficial Standard Mortgage Investors, came into being Dec. 28, 1978 as a new holding company "which plans to diversify into other businesses or markets by the acquisition of financial, service or manufacturing companies." Moraga holds as one subsidiary Alamand Corp., the former realty trust.

Simultaneously with activation of the holding company Alamand completed restructuring its debt by swapping assets and borrowing \$10 million from an insurance company to repay \$30.5 million principal and interest owed to its banks. Alamand's \$10¼ million life company loan is at 11½% interest amortizing over 15 years and is secured by various assets. The deal converts short-term debt into long-term and reduces total annual cash outlays.

The restructuring boosts shareholders' equity by \$8½ million and gives the new Moraga Corp. about \$6.70/sh. book value net of intangibles. With the stock selling at about \$3 bid OTC, Moraga shares now represent one of the outstanding speculative buys for 1979 and are being ranked #1.

--Cousins Mortgage & Equity Investments filed a registration statement with the S.E.C. seeking shareholder approval of a previously announced plan to merge Cousins upstream into Newcorp, Inc., a holding company. Newcorp will be the vehicle for Cousins diversification outside the real estate field. Cousins has agreed with Atlanta-based Fuqua Industries, Inc. under which Fuqua will provide initial financing and management of the acquisition program. Fuqua receives an option to buy up to 25% of shares of the new company at the lower of market value or book value (currently about \$1.23/sh.), but not below \$1.75.

Cousins reports \$51.8 million taxloss

carryforward or about \$13.45/sh. available at Aug. 1978 but \$37 million or \$9.59/sh. expires in 1980, making it difficult to use unless an acquisition is already waiting in the wings. This short NOL fuse plus modest equity dim attractiveness of shares.

--TRECO, Inc., formerly Barnett Mtg. Trust, reorganized in corporate form in Nov. 1978 and has already developed on its own several operating service businesses. New lines include property management under Southern Property Services, Inc. subsidiary, and commercial mortgage banking in TRECO Realty Group, Inc., both wholly owned. They generated about 10% of TRECO gross revenues in the six months to Sept. 30. But TRECO still operates with thin tangible equity of only 99¢/sh. and has a complex capital structure, all dulling lustre of the shares as a speculative recovery candidate.

Great American Mgmt. & Investment's proposed Ch. XI plan, now circulating, would convert that trust into a corporation and Eastover Corp., formerly First Commerce Realty Inv., has adopted the name of a corporation but remains chartered as a business trust. But you can expect a great many more corporate reorganizations during 1979 as more erstwhile trusts seek to make themselves more compatible with the companies they'd like to acquire to use their taxlosses.

OPPORTUNITY TYPE THREE: TRUSTS WHERE NEW MANAGEMENT MAY TAKE CONTROL TO GO NEW WAYS

In the first days when the price of REIT shares collapsed in 1974-75, many investors expected tender offers to be the medium through which new management would replace original sponsors at many trusts.

But after a few abortive tries, tender offers have died off because shareholders aren't easily persuaded to give up their own hopes for recovery. During 1978 the focus shifted to friendly, or negotiated, mergers or acquisitions and the proxy contest as a way to effect changes in control.

For example, Nationwide REI went out in active search for a merger partner and wound up agreeing to merge into a hometown
(Continued on page 7)

WINNERS AND LOSERS AMONG 135 REALTY TRUSTS IN 1978

(Classed by opening price)

Opening price Over \$10.01

Trust	'78 Last	% Chng.
San Fran. RE...	\$18.50	+22.3%
Gen'l. Growth..	26.38	+ 9.3
Penn. REIT.....	16.25	+ 9.2
REIT of Amer....	15.63	+ 7.8
C.I. Realty....	11.25	+ 5.8
Terrydale Rl...	14.00	+ 3.7
Cont. Ill. Prop.	15.63	+ 0.8
Rl.&Mtg.Pacif..	12.25	- 1.1
BankAmer. Rl...	10.38	- 1.2
University Rl..	9.88	- 6.0
JMB Realty.....	15.50a	- 6.1
Hotel Investor.	15.88	- 6.6
Fraser Mtg.....	10.50	- 6.8
Consol. Cap.Rl.	25.00	- 7.4
Prop. Capital..	11.00	- 8.3
Federal Rlty...	14.88	- 8.5
Hubbard REI....	16.13	- 9.2
Washington REIT.	21.00	-13.0
Wells Fargo MI.	11.38	-14.2
ConnGen M&R....	18.00	-14.3
Rlty. Income...	11.00	-14.6
Fla. Gulf Rl...	11.75	-16.1
First Union RE.	10.75	-16.5
NW Mut. Lf.M&R.	10.00	-18.4
MassMutual M&R.	12.50	-18.7
PNB Mtg. & Rl..	8.38	-22.1
Lomas & Net. MI	15.38	-22.6
Equit. Lf.M&R..	16.75	-35.9
Rlty. ReFund...	13.00	-38.1

29 Trusts

Median: -8.3% (+8.6% in '77)

Opening price under \$1

Trust	'78 Last	% Chng.
C.I. Mtg. Gr....	\$3.00	+376.0%
NJB Prime Inv...	1.00	+222.6
TRECO (Barnett).	1.06	+112.0
Amer. Fletch.MI.	1.75	+100.0
Colwell Mtg. Tr.	1.50	+87.5
Cit.& So. Rlty..	1.13	+79.4
Great Am. M&I...	0.44	+76.0
Independence Mtg.	1.13	+71.2
BRT Realty Tr...	1.25	+66.6
Compass(Bar.-Win)	1.25	+42.0
Lifetime Comm....	0.63	+40.0
Nat. Mtg. Fund..	1.00	+33.9
Citizens Mtg....	0.38	+31.0
First Mtg. Inv..	0.63	+11.0
Capital Mtg.....	0.88	0.0
Plaza Realty....	0.94	0.0
Cont. Mtg. Inv..	0.23	- 8.0
Metroplex(Just.)	0.50	-10.7
Guardian Mtg....	0.56	-11.1

19 Trusts

Median: +42.0% (+133.3% in '77)

Opening price \$5.01 to \$10

Trust	'78 Last	% Chng.	Trust	'78 Last	% Chng.
Nationwide RE...	\$12.50	+56.3%	REI Properties.	11.00b	+10.0
Virginia REIT..	11.75	+51.6	Commonwealth Rl.	9.50	+ 5.6
Eastover Corp..	7.50	+42.9	Pac. So. Mtg....	6.88	+ 1.9
Amer. Equity In.	8.00	+39.1	Mtg. Tr. Amer...	6.00	0.0
US Bancorp R&M.	13.88	+38.8	Riviere Realty..	5.50	0.0
Hanover Sq. Rl.	7.00	+33.3	Investors Rlty..	7.38	- 1.7
Denver REIA....	10.50	+25.4	Franklin Rlty...	5.00	- 2.5
Baird & Warner.	7.50	+25.0	Hospital Mtg....	8.75	- 4.2
Gen'l. RE Sh...	7.50	+25.0	First Cont'l. RE	8.00	- 5.9
Hen.S. Miller..	12.50	+25.0	M&T Mtg. Inv....	9.13	- 8.8
Gould Inv. Tr..	8.63	+23.3	Prop. Tr. Amer..	4.63	- 9.7
ICM Realty.....	8.50	+21.4	Sutro Mtg. Inv..	8.25	-12.0
Mtg. Growth In.	6.88	+19.7	Walter Rlty.....	4.63	-12.0
New Plan Rlty..	9.25b	+13.2	United Realty...	8.13	-17.7
GREIT Realty...	7.13	+11.8	MONY Mtg. Inv...	7.63	-23.8
NW Finc'l. Inv.	8.13	+10.2	Pgh. & W. Va....	5.75	-27.0

32 Trusts -- Median: +10.1% (+19.6% in '77)

Opening price \$1 to \$5

Trust	'78 Last	% Chng.	Trust	'78 Last	% Chng.
Kentucky Prop...	2.13	+113.0%	Western Mtg. Inv.	3.38	+ 4.0
Builders Inv....	2.38	+110.6	Amer. Century MI.	3.13	0.0
Mission Inv. Tr.	3.63	+107.4	Cameron-Brown...	2.63	0.0
Moraga(Alamand).	3.13	+92.0	CleveTrust Rlty.	3.75	0.0
Fidelco Growth..	4.13	+83.6	First Vir. Mtg...	1.50	0.0
First Memphis...	2.75	+83.3	Indiana Mtg.....	3.50	0.0
Cousins M&E Inv.	2.63	+75.3	U.S. Realty Inv..	4.88	0.0
TIERCO.....	2.63	+75.3	IDS Realty.....	1.63	- 3.0
Amer. Realty....	2.00	+72.4	First Denver Mtg.	2.13	- 5.8
Citizens Growth.	2.75	+57.1	First Newport Rl.	1.38	- 8.7
B.F. Saul REIT..	6.38	+50.1	Heitman Mtg.....	1.38	- 8.7
Tri-South Mtg...	2.25	+50.0	Maryland Rlty...	3.13	-10.9
Bay Colony Prop.	4.00	+45.5	GMR Properties...	1.88	-11.7
First Wisc. Mtg.	2.88	+44.0	Wachovia Rlty...	3.88	-14.0
Midland Mtg....	1.75	+40.0	First Penn. Mtg.	1.50	-14.3
Diversified Mtg.	3.63	+38.0	Insti. Investor.	2.00	-16.0
Lincoln Mtg. Inv.	1.88	+36.2	Cont. Ill. Rlty.	2.63	-19.4
Central Mtg.....	5.13	+32.2	Mtg. Inv. Wash..	1.75	-26.5
Prudent RE.....	3.25	+23.6	No. Amer. Mtg...	2.75	-26.7
Flatley Realty..	4.00a	+23.1	Summit Props....	2.75	-31.0
State Mut. Inv..	4.38	+20.7	Barnes Mtg. Inv.	1.88	-32.0
Atlanta Nat. RE.	4.00	+18.3	UMET Trust.....	1.88	-37.7
Growth Realty...	4.00	+14.3	Republic Mtg....	1.38	-39.1
So. Atlantic Tr.	3.00	+14.1	BT Mtg. Inv.....	1.25	-44.4
Texas First Mtg.	3.00	+14.1	API Trust.....	2.13	-50.0
Security Mtg....	3.38	+12.7	Wisconsin REIT..	1.63	-58.0
Westport Co.....	2.44	+ 8.4	Chase Man. Trust	0.50	-73.4
Hamilton Inv....	2.00	+ 6.4			

55 Trusts -- Median: +6.4% (+15.4% in '77)

Caution: No prediction of 1979 is implied; Trust shares seldom repeat one year's price performance the next year.

a- Unit price. b- Adjusted for splits.
Median underlined.

savings & loan association. Investors Realty and Summit Properties talked merger during most of 1978 and toward year-end agreed to combine, provided shareholders approve.

More important for investors was the takeover of full control of two trusts by outside investors not initially identified with original sponsors. Eastover Corp. emerged from First Commerce Realty Inv. after Jackson, Miss. stockbroker Leland Speed and associates and family acquired about 191,000 sh. or 18.6%. They paid off all bank debt and began acquiring shares of selected other trusts, taking major positions in ICM Realty and Texas First Mtg. (see table on p. 3). Having bought stock of Eastover below book value, it's clear Eastover's new managers hope to repeat the process with other trusts. And this makes Eastover a longer-term special situation, as we pointed out June 9, 1978 and continue to say, at prices still well below the \$11.86/sh. book value.

Lincoln Mortgage Investors is not such a happy case to date. A new group including Morse F. Van Horn, Palo Alto, Cal. investor, and several southern California investors, bought over 20% of shares, apparently unaware of each other's activity, and then joined to sponsor a new slate of trustees that took over control in October 1978. New trustees say they have visited every trust property and "were somewhat discouraged as we found far less than we had anticipated."

The trust has good liquidity but lacks significant sources of operating income; moreover sinking fund payments on its debentures are required in 1980. Thus new management is making plans to limit lending activity and increase equity investments. All this is to bolster thin equity, now standing at \$1.7 million or 85¢/sh. tangible equity. Under these circumstances, shares are rated as very chancy now.

The big control fights in 1979 are likely to come in Fidelco Growth Investors and Baird & Warner Mtg. & Realty. Philadelphia insurance agency and real estate investor Sidney Baer has bought about 15% of Fidelco shares (p. 3) and

announced plans to seek control. Fidelco management has just decided to cut away from its original sponsor, Philadelphia bank holding company Fidelcor, and says it is absolutely neutral on the Baer plan.

New York stockbroker Carl Icahn and his Icahn & Co. have bought about 23% of Baird & Warner (table, p. 3) and has requested a board seat. This was refused and Baird management says the group may seek to call a special shareholders' meeting and attempt to elect a new slate of trustees. Baird's declaration of trust permits holders of over 20% of stock to call such a meeting.

Two other bank-sponsored trusts have decided to become internally administered early in 1979 and control fights are possible. Citizens & Southern Realty is separating and two holders of large groups of warrants are waging court fights in an effort to use them as the door to control. No such budding control fights are in evidence at the second trust, U.S. Bancorp Realty & Mortgage.

And two other bank-sponsored trusts are involved in potential control changes via debenture exercise. Two California investors, Joe Akerman and John Wertin, converted \$1.7 million of Compass Investment Group (nee Barnett Winston) into 43% of shares, at an adjusted \$1.35 per share conversion price. If no other bondholders convert, they may seek to merge the trust into other entities such as Wertin's development company. Former sister trust TRECO (nee Barnett Mtg.) has two bondholders with similar potential large holdings -- if they convert.

TALE OF THE TAPE: USING 1978 MARKET ACTION TO PICK STOCKS FOR 1979

On page 6 (opposite) we print the 1978 percentage price changes for about 135 trust stocks, classed by opening price for the year because that opening price strongly influences market volatility. Prices under \$1 are expected to show highest percentage gains or losses while those over \$10 should have least volatility. And since price fluctuation equals risk in our book, you can then pick your poison by picking price.

(Continued on p. 8)

SHARE TURNOVER RATIOS DURING 1978
(% of total shares traded in year)

<u>Trust</u>	<u>% Traded</u>	<u>Trust</u>	<u>% Traded</u>
<u>Over 50%</u>		<u>First Pennsylvania Mtg.....</u>	
Baird & Warner M&R.....	80.7	Republic Mortgage Inv.....	28.9
BankAmerica Realty.....	62.0	PNB Mortgage & Realty.....	27.5
Nationwide RE.....	61.0	Pacific Southern.....	27.0
Builders Investment Group..	58.6	Continental Ill. Prop.....	26.6
Bay Colony Properties.....	55.1	Barnes Mortgage Inv.....	25.7
State Mutual Investors.....	53.7	Northwestern Mut. Lf. M&R..	25.6
		Realty Refund.....	25.6
<u>Between 40-50%</u>		U.S. Realty Investments....	25.3
Northwestern Financial Inv..	49.1	Connecticut General M&R....	25.2
Continental Ill. Rlty.....	48.8	First Continental REIT.....	25.1
Diversified Mtg. Inv.....	48.1	Investors Realty Trust.....	24.8
UMET Trust.....	44.3	Virginia REIT.....	24.1
Cousins Mtg. & Equity.....	44.2	Sutro Mortgage Inv. Trust..	23.8
Hamilton Inv. Trust.....	42.1	Wells Fargo Mtg. & Equity..	23.0
CleveTrust Realty.....	41.0	Franklin Realty Group.....	22.7
Mission Investment Trust...	40.5	GMR Properties.....	22.5
		United Realty Trust.....	22.3
<u>Between 30-40%</u>		San Francisco Real Estate..	21.7
CI Realty.....	39.7	Eastover Corp.....	21.4
North American Mtg. Inv....	39.0	MassMutual Mtg. & Realty...	21.0
Hanover Square Realty.....	37.7	Western Mortgage Inv.....	20.6
Growth Realty.....	37.6		
ICM Realty.....	37.0	<u>Between 10-20%</u>	
Heitman Mortgage Inv.....	36.3	MONY Mortgage Investors....	19.5
Wachovia Realty Inv.....	36.0	Denver Real Estate Inv.....	19.0
Mortgage Trust of America..	35.0	Pittsburgh & W. Va. RR.....	16.9
Cameron-Brown Inv. Gp.....	34.9	Prudent REIT.....	16.4
Lomas & Nettleton Mtg.....	34.3	Consolidated Capital Rlty..	15.8
BRT Realty.....	34.1	REIT of America.....	15.3
Tri-South Mortgage Inv.....	33.6	Property Capital Trust.....	15.2
Midland Mortgage Inv.....	33.5	Florida Gulf Realty.....	14.8
Fidelco Growth Inv.....	33.2	Hubbard Real Estate Inv....	14.4
American Century Mtg. Inv..	32.6	General Growth Properties..	13.7
Saul (B.F.) REIT.....	32.3	Hotel Investors.....	13.4
Hospital Mortgage Inv.....	32.2	Realty Income Trust.....	13.0
Security Mortgage Inv.....	31.5	Federal Realty Inv.....	12.3
U.S. Bancorp Realty.....	31.1	Mortgage Growth.....	12.2
GREIT Realty.....	30.6	JMB Realty.....	12.0
BT Mortgage Investors.....	30.3	First Union Real Estate....	11.0
Realty & Mtg. of Pacific...	30.3		
Equitable Life Mtg. & Rlty.	30.2	<u>Less than 10%</u>	
		Gould Investors Trust.....	8.2
<u>Between 20-30%</u>		Pennsylvania REIT.....	7.3
South Atlantic Trust.....	29.9	Washington REIT.....	7.0

Because investors always are pulling money out of stocks they believe are high and putting that money back to work on stocks that are low, generally your best bets are stocks at the bottom of 1978's heap. Purely on this and market turn-over from 1978, we'd finger these stocks as technical favorites for 1979:

Under \$5: Chase Man. Trust; API Trust; BT Mortgage.

\$5 to \$10 range: MONY Mtg. Inv., United Realty (whose shares we hold), and Walter Realty.

Over \$10 range: Lomas & Nettleton Mtg., PNB Mtg. & Rlty. (whose shares we hold), and Florida Gulf Realty.